Research Background Paper

Toward a Theory of Financial Savings and Child Well-Being: Implications for Research on a Children and Youth Savings Account Policy Demonstration

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George Warren Brown School of Social Work

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Edward Scanlon
escanlon@ukans.edu

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Center for Social Development
Washington University in St. Louis
One Brookings Drive, Campus Box 1196
St. Louis, MO 63130-4899
(314) 935-7433

The University of Kansas
School of Social Welfare
1545 Lilac Lane, Room 207
Lawrence, KS 66044-3184
(785) 864-2385

Public policy and program evaluation research have frequently been criticized as being uninformed by theory. While the deductive positivist method requires a clearly specified theoretical model to precede social inquiry, much evaluation research proceeds without it, often building methodologically complex studies on shaky conceptual underpinnings (Chen, 1990; Sherraden, 2000). The paucity of theory in evaluation research can result in the studies becoming "fishing expeditions" in which statistically significant variables are sought after in a haphazard fashion. The purpose of this essay is to develop a theoretical model for the investigation of outcomes in asset accumulation programs. Here we will consider the case of child and youth saving account programs, and make an initial effort to establish a theoretical model that clarifies the independent variables, mediating and causal pathways, control variables, and potential psychosocial outcomes.

INDEPENDENT VARIABLES: CONCEPTUALIZING ASSETS AND ASSET HOLDING

First we must consider assets themselves--the presumed independent variable for our study. While this seems to be a fairly straightforward issue, it is actually a quite complex one. Schreiner (personal communication, 2000) has raised the question of whether assets and income are actually different from one another. Schreiner contends that income and assets may be the same thing—economic resources—and that the form of the economic benefit is irrelevant. In this view, assets are no more than simply stored consumption capacity; presumably, increased assets would have no greater effect than a comparable amount of increased income. Sherraden addresses this issue in *Assets and the Poor* (1991) arguing that there is a distinction. He argues that assets and income differ as economic resources and that they are complementary. Holding resources as assets means that they can be used to plan for the future, can be used to smooth out irregularities in income sources, and can provide the holder with a greater sense of control and personal security. From a social-psychological perspective, the experiences of holding assets and receiving income are likely different from one another, affecting one's thoughts and behaviors in different ways. That there is disagreement on this distinction suggests the need to include both income and asset measures as variables in the CYSADP study.

Another question arises in terms of how asset program participation should be conceptualized. Do the effects of asset program participation occur regardless of the value of assets that are accumulated? Put another way, is it asset program participation that we theorize as a causal factor, or will outcome effects increase as asset levels increase? As participation and savings equity may have separate effects, it seems appropriate to measure asset program participation in both ways. This implies that we might use a dichotomous measure (participation v. non-participation) and continuously (value of savings equity).

Finally, because the proposed Children and Youth Savings Account Policy Demonstration (CYSAPD) program includes financial literacy courses, these must also be considered as an independent variable. Again, the question arises of whether this is a dichotomous variable (participation vs. non-participation) or a continuous one (degree of financial knowledge). Do we hypothesize that the effects of these classes occur through simple participation in them or through increased financial literacy? Because financial literacy will presumably be the result of attending financial education courses, however, I would propose using financial education class attendance as an independent variable and conceptualizing financial literacy as an intermediate, or mediating, outcome. This would allow us to independently measure the direct impacts of course attendance and its potential indirect impacts through enhanced financial literacy.

In sum, I would propose the following as independent variables:

- ✓ CYAPSD Program Participation (Dichotomous)
- ✓ Amount of Savings in CYAPSD account (Continuous)
- ✓ Financial Literacy Class Participation (Continuous)

EXPLAINING CAUSALITY: MEDIATING FACTORS

Despite acknowledged shortcomings in the literature, scholars interested in asset-based social welfare have made efforts to develop a theoretical link between asset based programs and social well-being (Boshara, Scanlon & Page-Adams, 1998). In this section, we explore possible causal pathways that might explain why asset holding can generate positive psychosocial outcomes for children and families. Based on previous theoretical work and some limited empirical literature, we propose four possible mediating factors: increased future orientation, increased personal efficacy, enhanced personal security, and increased financial literacy.

Sherraden's (1990; 1991) early publications in asset based welfare are an effort to develop a theoretical rationale for establishing a social welfare policy based upon helping citizens to increase their financial assets. Sherraden's critique of social welfare policy asserts the superiority of asset-based welfare as a means of decreasing poverty and of generating socially desirable behavior. To answer the question of why assets might matter, Sherraden introduces the concepts of stakeholding and cognitive schemata. Owning assets gives citizens a certain stake in the system, including them as participants in the social order and offering them some reason for participation in economic and social affairs. Assets, Sherraden reasons, alter the very cognitive schemata of the poor. Experiences of the world interject frameworks that structure one's expectations and understandings of self, world and future. With current conditions of welfare and poverty, the poor hold perceptions of causality in the world--schemata--that do not promote future orientation or a sense of personal efficacy. Sherraden reasons that assets would alter their cognitive schemata, providing them with mental structures that could support behaviors of a more positive nature.

Sherraden theorizes that these cognitive changes would also impact behavior in a beneficial manner, and identifies a set of outcomes that might result from asset accumulation: 1) greater future orientation, 2) stimulated development of other assets, 3) improved household financial stability, 4) greater focus and specialization, 5) a foundation for risk-taking, 6) increased personal efficacy, 7) increased social influence, 8) increased political participation and 9) enhanced welfare of offspring (Sherraden, 1991, p.148). These outcomes, suggests Sherraden, will result in an approach to the world that will decrease the likelihood of continued poverty, and increase income and asset holding. The policy of asset-based welfare will create a reciprocal cycle in which asset accumulation and positive social behaviors will be mutually reinforcing.

Limited empirical evidence exists that asset holding does enhance both future orientation and increased personal efficacy (Yadama & Sherraden, 1996). Given the CYSAPD's three year time-line and focus on children's savings, it seems plausible to hypothesize that higher levels of future orientation and personal efficacy might result and that these might function as mediators (or intermediate outcomes). Because parents are saving for their children's education, cognitions and behaviors related to children's education might ultimate outcomes.

It has also been suggested that asset holding—particularly homeownership—enhances a sense of "ontological security," the sense that there is control over one's resources and physical space (Saunders, 1978). Scholars examining housing tenure have suggested that owner-occupation provides one with a greater sense of control over such things as who may enter the boundaries of the home and decisions about repairs and improvements. These result in a sense of greater personal control and security.

What is more, Sherraden has hypothesized that assets will provide a basis for risk taking. How is a sense of security related to risk-taking? Sherraden states that when households accumulate assets, they have a "safety net" which allows them to invest, taking previously unacceptable risks with a greater sense of security. The idea that assets provide a "cushion" that, in turn, helps one to feel more secure has both anecdotal and common sense support as well. Thus a third "intermediate outcome" of asset holding might be an increased sense of financial security. This sense of security might reduce stress for families, allowing them to focus their energy more effectively on caring for their children and planning for their future.

Finally, analysts of financial literacy programs have suggested that increasing economic knowledge will result in greater rates of savings and investment (Clancy, Grinstein-Weiss & Schreiner, 2001). In this view, failure to save is a result of inadequate knowledge about the benefits of savings and budgeting. Studies of 401(k) educational seminars, school based economic literacy programs, and similar programs indicate some positive impacts, particularly for those with little or no education. Thus there is support for including financial literacy as an intermediate variable.

The mediating variables I propose include:

- ✓ Increased future orientation
- ✓ Increased personal efficacy
- ✓ Increased sense of financial security
- ✓ Increased financial literacy

CONTROL Variables

In quantitative research using statistical methodology, we refer to control variables as those variables which may have an effect on outcomes but are extraneous to the purpose of the study (Kerlinger, 1986). Typically, extraneous variables that we wish to "control for" are dealt with in a variety of ways, often through the use of statistical methods. We would likely wish to control for the effects of family income, race, ethnicity, child gender, child age, parental education level, and family structure on the outcomes of interest. Because these variables are not themselves amenable to intervention, they are not included as independent variables, despite their obvious potential impacts upon outcomes.

OUTCOME VARIABLES

What outcomes might result from participation in the CYSAPD? Because the CYSAPD program is focused on children, and the savings are targeted to their education, is seems that it would be useful to examine outcomes that center on behaviors and attitudes related to children's education. Previous literature has examined whether children of homeowners and renters differ in terms of child well-being, and have found that some differences do exist (Aaronson, 2000; Green & White, 1997; Scanlon & Page-Adams, 2000). However, no studies have examined parenting behaviors, and limited empirical evidence exists for impacts on very young children. We propose the following outcomes, and differentiate impacts on parent's and children's behaviors.

Parental Variables. First, assuming that parental future orientation and self-efficacy are positively impacted as intermediate variables, we hypothesize that these changes will in turn improve parental oversight of children's educational and health needs. In other words, as parents save for children's educational needs, this should stimulate behaviors and cognitions related to the well-being of children. The specific pathways through which some of these outcomes might occur are specified in **Diagram A**. We would anticipate the following outcomes for parents:

- ✓ Increased cognitive stimulation of children
- ✓ Increased participation in child's school
- ✓ Increased parenting effectiveness
- ✓ Increased emotional support of children
- ✓ Increased consistency in monitoring children's health care

Child Variables. **Diagram B** depicts the relationship between participation in the CYAPSD and child well-being outcomes. We are assuming that the program will focus on young children, ages 3-5. We would hypothesize that as parental future orientation, self-efficacy, and financial knowledge grew, this would again stimulate beneficial outcomes in the areas of children's educational, behavioral, and health well-being.

- ✓ Academic Performance (School attendance, increased vocabulary levels and other academic performance measures)
- ✓ Behavior Problems (Child Behavior Checklist scores, Behavioral Problem Index)
- ✓ Health Outcomes (days sick, number of illnesses, vaccination rates)

CONCLUSION

This short paper is an initial effort to specify the theoretical underpinnings for the evaluation of the CYAPSD. While further clarification is certainly necessary, the paper attempts to specify independent variables, mediating variables, control variables, and psychosocial outcomes. A clear theoretical statement is necessary if we are going to begin to determine research design, survey construction, and measurement issues. General agreement and clarification about these issues at the outset will prove to be fruitful as the project and its evaluation get underway.

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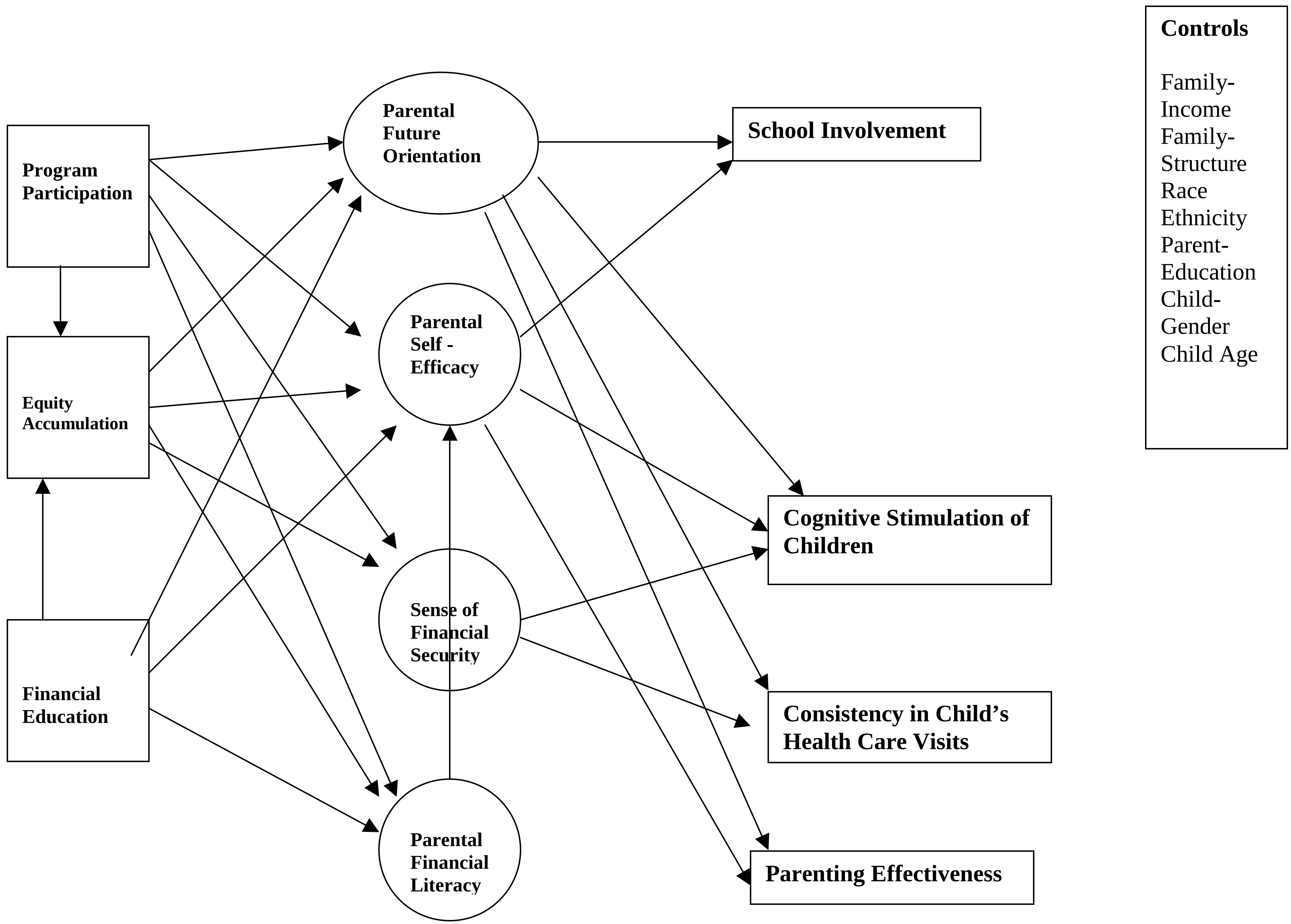
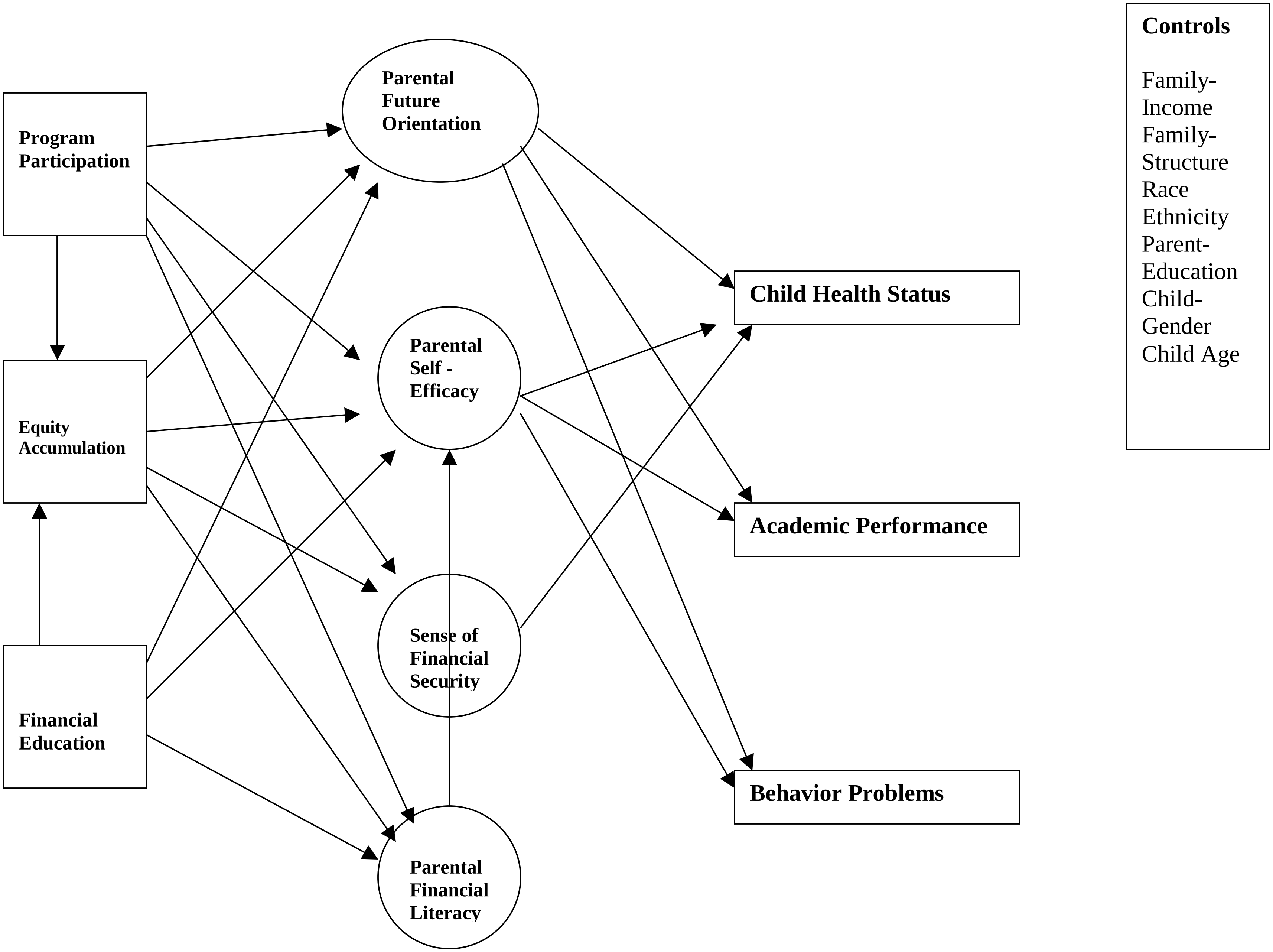


Model A: Effects of Child Saving Accounts on Parent Outcomes



Model B: Effects of CSA Program on Child Outcomes